

LDP Presidential Election

October 2, 2025

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Election Runoff



Shinjirō Koizumi



Sanae Takaichi

Policies

- Fiscal policy
 - Koizumi: more cautious on deficit-financed expansion
 - Takaichi: views issuing deficit-covering government bonds as unavoidable.
- Monetary Policy
 - Both candidates stress BoJ independence
 - Takaichi argues government should take responsibility for the direction while leaving tools to the BoJ
- Note: The ruling coalition lacks a majority, which means the next leader needs opposition cooperation. This tends to limit extremes in policy implementation

Bank of Japan

- Given Japan's economic situation, there is a strong case to hike rates
- However, the BoJ has been hesitant to hike rates due to uncertainty and this will likely persist through the October meeting
- The most plausible outcome is a hawkish hold in October and a hike in December

Market Reaction - JGB

- Koizumi is more neutral/cautious on deficit issuance and prefers a greater reliance on tax windfalls/expenditure measures
 - This implies less supply-driven upward pressure on super-long yields
- Taikaichi is a more expansionary-fiscal candidate and this would create curve-steepening pressure
- The recent richening in 10y JGBs looks overdone
 - This could result in a significant rise in yields should Takaichi win and not much change if Koizumi wins
 - A “one-way bet”
- Trade idea: Short 10y JGB

Market Reaction - JPY

- Scenario A: Takaichi wins (fiscal-risk regime)
 - More expansionary fiscal stance → market prices higher supply / higher term premium (curve steepening)
 - Foreign investor response: higher uncertainty around inflation/credibility → reduced JPY demand for JGBs and JPY outflow pressure
 - FX implication: even if yields rise, they rise for the “wrong reason” (risk premium), so JPY weakens
- Scenario B — Koizumi or “anyone else” (lower-yield regime)
 - More cautious fiscal stance → less supply fear → yields stay moderate.
 - Lower growth + softer inflation narrative but yields don’t come down
 - FX implication: moderate external rate differential / carry impulse reasserts → JPY stays flat.

JPY Trade

- Two different political states but still a “one way bet”
 - Takaichi: risk premium / outflows → JPY down
 - Others: lower Japan yields / carry → JPY flat
- Trade Expression:
 - Long USDJPY
 - Long CHFJPY
 - Long AUDJPY

Risks

- Non-Takaichi outcome plus a materially more hawkish BoJ path than priced
- A sharp global risk-off where JPY reclaims strong safe-haven demand (and dominates carry dynamics)
 - JPY hasn't been acting like a safe haven recently
 - Long CHFJPY (as opposed to USDJPY or AUDJPY) attenuates this risk